



U.S. Department of Agriculture



Office of Inspector General
Southwest Region

Audit Report

**Food and Nutrition Service
Disaster Food Stamp Program for Hurricanes
Katrina and Rita—Louisiana, Mississippi, and Texas**

Report No. 27099-49-Te
September 2007



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



September 4, 2007

REPLY TO

ATTN OF: 27099-49-Te

TO: Roberto Salazar
Administrator
Food and Nutrition Service

THROUGH: Lael Lubing
Director
Grants Management Division

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Disaster Food Stamp Program for Hurricanes Katrina and Rita

This report presents the results of our audit of the Disaster Food Stamp Program for Hurricanes Katrina and Rita in Louisiana, Mississippi, and Texas. Your response to the official draft report, dated August 16, 2007, is included in its entirety as exhibit B with excerpts and the Office of Inspector General's (OIG) position incorporated into the Findings and Recommendations section of the report.

Based on the response, management decisions have not been reached for the recommendations in the audit report. The information needed to reach management decisions is set forth in the OIG Position section after each recommendation. In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframes for implementation for the recommendations. Please note that the regulation requires a management decision be reached for all recommendations within a maximum of 6 months from the date of report issuance. Final action on the management decisions should be completed within 1 year of the date of the management decisions to preclude being listed in the Department's annual Performance and Accountability Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during the audit. If you have any questions, please contact me at 720-6945, or have a member of your staff contact Theresa Bulla, Director, Food and Marketing Division, at 720-5907.

Executive Summary

Food and Nutrition Service, Disaster Food Stamp Program for Hurricanes Katrina and Rita (Audit Report 27099-49-Te)

Results in Brief

The U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) is responsible for providing nutrition assistance to the victims of natural disasters, including hurricanes. This assistance to disaster victims is provided through disaster food stamp programs (DFSP), which FNS administers but which States operate. During the 2005 hurricane season, FNS activated DFSPs in the Gulf Coast States of Louisiana, Mississippi, and Texas, as millions were affected by Hurricanes Katrina and Rita. FNS' response to these storms meant that more than 1.3 million households in these three States received approximately \$636 million in nutrition assistance. The Office of Inspector General (OIG) initiated this audit to determine if FNS adequately administered these DFSPs and if the State agencies responsible for operating them followed FNS' guidance.

Our audit was conducted in conjunction with the President's Council on Integrity and Efficiency as part of its examination of relief efforts provided by the Federal Government in the aftermath of Hurricanes Katrina and Rita. As such, a copy of the report has been forwarded to the President's Council on Integrity and Efficiency, Homeland Security Working Group, which is coordinating Inspectors' General reviews of this important subject.

Based upon our review of these three States' DFSPs, we concluded that FNS, through the participating State agencies, quickly provided nutrition assistance to millions of disaster victims. The distribution of disaster benefits should, in fact, be regarded as one of the successes of the Federal response to Hurricanes Katrina and Rita. However, we noted some areas where improvements should be made to ensure State agencies are adequately prepared in disaster situations.

The Food Stamp Act of 1977 requires State agencies participating in the DFSP to submit for approval a plan of operation specifying the manner in which the program will be conducted within the State. The Act specifies requirements of the State plan including a plan of operation for providing food stamps for households that are victims of a disaster. The Act lists several requirements that must be included in the plan such as procedures for applying, coordination with relief agencies, fraud deterrence, and instruction of caseworkers. FNS' handbook¹ for State DFSPs expands upon the requirements of the Food Stamp Act and provides reasonably comprehensive guidance for effectively planning for disasters, and lists a number of

¹ FNS Handbook 320: Disaster Food Stamp Handbook, dated May 1995

components that *must* (emphasis added) be included in State DFSP plans. We found, however, that Louisiana, Mississippi, and Texas did not have DFSP plans in place that met all requirements of the FNS handbook and the Food Stamp Act. The plans lacked key components including fraud prevention plans. Food stamp regulations relating to disaster assistance have not been finalized and do not provide specific requirements for DFSP plans. Because requirements for DFSP plans are not included in regulations, FNS regions and State agencies did not consider the instructions in the FNS handbook to be mandatory and, therefore, did not ensure plans included the components listed in the handbook.

An FNS National Office official stated that FNS regions are supposed to review State plans of operation (including DFSP plans) every year, but there is no written procedure in place to require this. The official agreed that regions should ensure that the components listed in the handbook are included in State DFSP plans. The official also agreed that the handbook is considered guidance and is not mandatory; however, FNS is reluctant to develop and implement regulations that would require States to include in their DFSP plans the components listed in the handbook and the provisions of the Food Stamp Act. DFSP regulations had been proposed in the 1980s but never finalized after FNS issued the DFSP handbook in 1995. The official thought that the Office of Management and Budget would not be amenable to implementing a regulation because of the potential increased burden on the States.

We also found that Louisiana, Mississippi, and Texas each had control weaknesses in their processing of applications for disaster food stamp benefits. The systems used to process applications did not track denied applications and/or account for all family members. By not tracking these applicants and household members, denied applicants could reapply at different locations using altered information, and family members could apply separately using their own names. Prior to the disaster, the State agencies had not tested their systems to ensure controls were in place to prevent duplicate participation and other sorts of fraud, waste, and abuse. Due to these control weaknesses, each of these three States experienced an increased risk of duplicate or fraudulent participation.

We could not quantify the potential levels of participant fraud or duplicate participation due to the absence of State processes in place to detect such improper payments. However, OIG special agents working Hurricane Katrina Fraud Task Force investigations continue to receive referrals throughout the country on individuals who have submitted false claims or provided false statements to obtain Federal benefits. OIG has conducted 18 investigations in Mississippi and Louisiana concerning cases in which FNS and other USDA agencies have been swindled by individuals

fraudulently obtaining Hurricane Katrina disaster benefits. From October 1, 2006, through February 6, 2007, 37 individuals have been indicted, 9 of whom have pled guilty and received sentences ranging from 24 months of probation to 12 months of incarceration. All of those sentenced were ordered to pay restitution, ranging from \$2,000 to \$13,400.

FNS National Office officials agreed that by not tracking denied applications and all household members, States are vulnerable to duplicate participation and recipient fraud. States should ensure that their systems have adequate controls to prevent these situations.

We conclude that FNS can improve how it administers States' DFSPs by addressing these issues. DFSP regulations need to be finalized to ensure States comply with key requirements of the Food Stamp Act and the FNS handbook. FNS also needs to ensure that State DFSP systems include controls to minimize participant fraud and abuse.

Recommendations In Brief

To improve its ability to respond to future disasters, FNS should:

Finalize Federal food stamp regulations pertaining to disaster assistance to specify State agency responsibilities for developing, testing, and implementing disaster assistance programs;

Develop and implement procedures detailing how FNS regional offices will review State DFSP plans and determine their adequacy;

Require FNS regional offices to review State DFSP plans in annual reviews of State agency operations;

Require States to test their disaster systems used to process applications annually to ensure controls are in place to track denied applications and all household members.

Agency Response

In a letter dated August 16, 2007, FNS generally concurred with the findings and recommendations and provided proposed corrective actions. FNS' written response is included as exhibit B of the report.

OIG Position

Although FNS concurred with the findings and recommendations, we cannot accept management decision on the recommendations until FNS provides us with additional information. The conditions needed to reach management decision are set forth in the Findings and Recommendations section of the report.

Abbreviations Used in This Report

CFR	Code of Federal Regulations
DFSP	Disaster Food Stamp Program
EBT	Electronic Benefit Transfer
EPPIC	Electronic Payment Processing Information Control
FNS	Food and Nutrition Service
MAVERICS	Mississippi Application Verification Eligibility Recording Information Control System
OIG	Office of Inspector General
OMB	Office of Management and Budget
USDA	United States Department of Agriculture

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Background and Objectives

Background

On August 29 and September 24, 2005, Hurricanes Katrina and Rita struck the Gulf Coast of Louisiana, Mississippi, and Texas. In the wake of both storms, significant Federal, State, and local resources were mobilized to respond to each of these disasters.

Within the U.S. Department of Agriculture (USDA), the Food and Nutrition Service (FNS) provides the less privileged with access to food, a healthy diet, and nutrition assistance. Ordinarily, through food stamp programs run by the States, FNS enables low-income families to buy nutritious food. States distribute this assistance through electronic benefit transfer (EBT) systems. During disasters that mobilize Federal resources, FNS is also responsible for providing nutrition assistance for disaster victims. When the President declared disaster areas affected by Hurricanes Katrina and Rita, FNS became responsible for providing nutrition assistance to many families throughout the Gulf Coast region.²

FNS' Waiver Process

In acknowledgement of the fact that during catastrophes of this sort, households and State employees may not have access to ordinary means of verifying information and that administrative burdens may need to be eased, FNS may waive ordinary regulatory provisions. Requests for waivers may be approved only if the specific regulatory provision cannot be implemented due to extraordinary temporary situations; FNS determines that the waiver would result in a more effective and efficient administration of the program; or unique geographic or climatic conditions within a State preclude effective implementation of the specific regulatory provision and require an alternate procedure. In order to expedite the disaster programs and to meet the needs of the vast number of people affected by Hurricanes Katrina and Rita, FNS approved over 70 waivers for the affected States.

Evacuee Policies

One of the most striking and unprecedented characteristics of the destruction left by Hurricane Katrina was the number of displaced people seeking shelter in other States. FNS responded to these mass evacuations by developing policies to enable State agencies to better serve people who evacuated disaster areas. In September 2005, FNS implemented the first Expanded Disaster Evacuee Policy³ and the National Enhanced Policy for Evacuees. These

² The Food Stamp Act of 1977, as amended, and the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1974, as amended, grant the President of the United States and the USDA broad authority to provide emergency assistance after disasters.

³ The original issuance of the Expanded Disaster Evacuee Policy was issued on September 2, 2005; however, FNS revised the policy and reissued it on September 14, 2005.

policies allowed those individuals who had evacuated the affected disaster areas to receive food stamp benefits under expedited service rules.

The Expanded Disaster Evacuee Policy was created for individuals who needed food stamp benefits, but had fled to areas where DFSPs were not operating. The Expanded Disaster Evacuee Policy was designed to waive many of the requirements of ordinary food stamp programs until a suitable period had passed for applicants to reestablish themselves.

The National Enhanced Policy applied to individuals who evacuated Louisiana and Mississippi because of Hurricane Katrina. The policy provided for a 1-month maximum food stamp benefit for any evacuee household. The evacuees were allowed to apply for this benefit either in September or October of 2005. This policy applied to all States, the District of Columbia, and U.S. territories.

The direct result of FNS' mobilization under the various State disaster plans is that many families received the nutrition assistance they needed. As of August 31, 2006, a total of 17 States⁴ reported approximately 1.5 million households received disaster assistance because of Hurricanes Katrina and Rita. These households received over \$680 million in benefits.

Objectives

The objectives of this audit were to determine whether FNS adequately oversaw DFSP operations and if State agencies operated the DFSP in accordance with FNS requirements. Additionally, the Office of Inspector General (OIG) evaluated procedures to prevent and detect program abuse such as duplicate payments, dual participation, and employee fraud.

⁴ (1) Alabama, (2) Arkansas, (3) Florida, (4) Georgia, (5) Illinois, (6) Indiana, (7) Kentucky, (8) Louisiana, (9) Minnesota, (10) Mississippi, (11) New Mexico, (12) North Carolina, (13) Oklahoma, (14) South Carolina, (15) Tennessee, (16) Texas, and (17) Wisconsin

Findings and Recommendations

Section 1. FNS Oversight of Disaster Food Stamp Program

Based upon our review of the Louisiana, Mississippi, and Texas DFSPs, we concluded that FNS quickly provided nutrition assistance to millions of disaster victims. This should be regarded as one of the successes of the Government's response to the catastrophic storms that affected the Gulf Coast in 2005. More than 1.3 million households in these three States received assistance of approximately \$636 million in benefits.

However, our audit noted that State DFSP plans did not always include components required by FNS *Handbook* 320. FNS regional offices did not adequately evaluate the plans to ensure the mandatory components were included. Because food stamp regulations relating to disaster assistance have not been finalized and do not provide specific requirements for DFSP plans or adherence to the handbook, FNS regions and State agencies considered the instructions in the FNS handbook as guidance and not mandatory.

We also found that States' systems used to process applications could be enhanced to maximize program integrity for DFSPs. States did not track denied applications and/or did not enter all household members into the systems. These weaknesses have increased the risk that benefits have been provided to ineligible household members.

Finding 1

FNS Needs to Ensure State DFSP Plans are Adequate and Meet Requirements of the Food Stamp Act

Louisiana, Mississippi, and Texas did not have DFSP plans in place that met all requirements of FNS *Handbook* 320 and the Food Stamp Act. State plans lacked key components including fraud prevention plans. Regulations relating to DFSP have not been finalized and do not include requirements of the Food Stamp Act. Accordingly, FNS regional personnel considered the handbook to be guidance and not mandatory and did not ensure that all components as required by the handbook and the Food Stamp Act were included in the State DFSP plans prior to plan approval.

The Food Stamp Act of 1977

Section 11 of the Food Stamp Act of 1977 requires State agencies participating in the Food Stamp Program to submit for approval a plan of operation specifying the manner in which the program will be conducted within the State. The Act specifies requirements of the State plan including a plan of operation for providing food stamps for households that are victims of a disaster. The plan must include, but not be limited to, "*procedures for*

informing the public about the disaster program and how to apply for its benefits, coordination with Federal and private disaster relief agencies and local government officials, application procedures to reduce hardship and inconvenience and deter fraud, and instruction of caseworkers in procedures for implementing and operating the disaster program.”

Section 4 of the Act requires the Secretary to issue regulations consistent with the Act as necessary for the effective and efficient administration of the DFSP. However, regulations relating to the program have not been finalized, and the interim regulations do not include the requirements contained in the Food Stamp Act.

FNS' DFSP Handbook and Interim Disaster Procedures

In response to a 1990 OIG audit report,⁵ FNS developed and issued a comprehensive DFSP handbook.⁶ This handbook was intended as a model for States to use in developing individual disaster programs to meet the needs of particular disasters. The handbook includes a list of nine items that “MUST” be included in the State agency DFSP plan. These items expand upon the requirements of the Food Stamp Act.

1. a list of local, State, and Federal Government agencies with responsibilities for disaster assistance, as well as a description of their responsibilities and project areas;
2. a list of the names, positions, and phone numbers of local, State, and Federal Government officials who are key contact persons during a disaster, including the State agency disaster coordinator;
3. a list of private disaster relief agencies within the State such as the Red Cross, Salvation Army, and community groups;
4. procedures for informing the public about the disaster program;
5. procedures for applying for disaster food aid that reduces any hardship and inconvenience to applicants;
6. a fraud prevention plan;
7. a plan for training caseworkers in how to implement the State’s DFSP;
8. an issuance plan; and
9. procedures for conducting post-disaster review activity.

The handbook also requires State agencies to review existing DFSP plans on an annual basis, revise if necessary, and submit the revision to FNS by August 15 of each year. If a revision is not submitted, FNS will assume that the most recent plan is current.

Since issuance of the handbook in 1995, FNS has added amendments to take into account the move away from its old paper food stamps to its newer EBT program. In 1999, FNS contracted with Booz-Allen Hamilton to publish the

⁵ Audit Report 27097-4-At, Hurricane Hugo Disaster Activities. dated December 26, 1990

⁶ FNS *Handbook 320: Disaster Food Stamp Program Handbook*, dated May 1995

agency's *Contingency Plan Guidelines* to deal with the possible disruption of EBT. In 2000, FNS also issued an *EBT Disaster Plan Guide* to supplement the original handbook.⁷

This handbook was developed, in part, to satisfy a 1990 OIG recommendation in which FNS had originally agreed to publish regulations on disasters by October 1, 1991. FNS had published a proposed regulation in the Federal Register on January 27, 1981, but it was not finalized. A draft of the final emergency food stamp rule was cleared through the Office of Management and Budget (OMB), but it was returned to FNS in September 1984. Subsequently, an interim rule was prepared and cleared to the Office of the General Counsel, but was returned to accommodate enactment of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 100-707, enacted November 23, 1988). FNS concluded, based on OIG audits and FNS internal reviews, that more guidance and information was needed in disaster situations than could be supplied in the DFSP regulations.

In order to achieve final action on the 1990 OIG report, FNS argued that there are ample provisions in current food stamp regulations to enable FNS to take appropriate administrative and fiscal action if a State agency fails to properly comply with its disaster plan and key standards in the disaster handbook. The Food Stamp Act and food stamp program regulations require participating State agencies to administer the program in accordance with the Act, regulations issued pursuant to the Act, and the FNS-approved State Plan of Operation. FNS advised OIG that the disaster plan of operation is developed according to procedures in the handbook, becomes part of the State Plan of Operation, and thus is wholly enforceable. OIG agreed to accept implementation of the handbook for final action in lieu of implementing final regulations.

Hence, emergency food stamp regulations were never finalized and remain as "interim disaster procedures" in the Code of Federal Regulations (CFR).⁸ These interim procedures only provide for temporary emergency standards of eligibility for households who are victims of a disaster and emergency allotments to eligible households to replace food destroyed in a disaster. The regulation does not provide any detail of procedures that State agencies must follow in emergency situations or reference to FNS guidance. Food stamp program regulations at 7 CFR 272.2(a)(2) provide requirements for the State Plan of Operation, including a requirement for a disaster plan. Paragraph (d)(1)(ii) of this section requires that a disaster plan be submitted to FNS for review in accordance with §280.6 or certification that a previously submitted plan has been reviewed and remains current. However, §280.6 is currently reserved and does not exist in the CFRs.

⁷ FNS has now completely revised the handbook to include lessons learned from the 2005 hurricanes and to update provisions related to EBT and other changes since the handbook was issued in 1995. FNS intends to maintain the revised guidance on its website. The revised guidance should be posted to the website by the end of May 2007.

⁸ 7 CFR 280.1

We reviewed Louisiana's, Mississippi's, and Texas' DFSP plans and compared them to FNS' overall requirements for these plans. We found that these three States' disaster plans were not in compliance with FNS' handbook or the Food Stamp Act. (See exhibit A for noted deficiencies). Most notably, none of the three States had a detailed fraud prevention plan in place. The Texas and Mississippi plans were primarily procedures for operating their EBT systems in the event of a disaster. FNS' Southwest and Southeast regional offices reviewed and approved the three States' DFSP plans, but the reviews were not sufficient to determine that several of the nine required components were missing. We also noted that the States did not receive FNS' formal, written approval of the plans they submitted.

FNS officials at the Southwest Regional Office advised us that disaster plans from State agencies are reviewed primarily for issues related to the EBT environment. The DFSP handbook is considered guidance. Prior to the 2005 hurricanes, regional office reviews of State DFSP plans were not a priority and were not done on an annual basis. The DFSP plans were only reviewed when submitted by States with changes. The regional officials also stated that the FNS National Office has not provided guidance on evaluating State DFSP plans and that approvals are completed informally by e-mail. Documentation to support the review process is not prepared or maintained.

FNS Southeast regional officials stated that the EBT supplement to the DFSP handbook was used in developing the Mississippi plan. Items that addressed issuance, security of the issuance site, and the ability to deliver benefits timely were considered in approving the plan. The plan was approved because it met the minimum requirements of the issuance process. FNS staff was aware that the plan was not a comprehensive disaster plan, but it was approved anyway given that a storm was fast approaching the Gulf Coast.

We discussed these issues with FNS National Office officials. One official stated that even though FNS regions are supposed to review State plans of operation (including disaster plans) every year, there is no written procedure to do this. Normally, State plans are revised and submitted to FNS in August; however, since hurricane season begins earlier in the year, disaster plans should probably be submitted around April each year. The official agreed that FNS regions should be reviewing the plans and ensuring that the required components in the handbook are included and suggested that a review of State DFSP plans may need to be included in annual FNS reviews of State agency operations.

Although the official agreed that State DFSP plans should include the elements in the handbook and Food Stamp Act, he also said that the FNS National Office has always considered the requirements of the Food Stamp Act to mean that those components must be included in States' applications to run a DFSP. If the components are not included, then FNS will not approve the disaster program. The official also suggested that the mandatory components listed in the DFSP handbook also apply to requirements to run a

DFSP, not necessarily requirements of the State disaster plan of operations. The application must include fraud control measures and other mandatory components listed in the handbook. Once the application is approved, the State must abide by the approved plan.

The DFSP handbook actually contains a separate list of requirements that must be included in the formal application to FNS to operate a DFSP. Many of the requirements are similar to those required to be in States' DFSP plans, including fraud prevention; however, this list is separate and distinct.

We also asked the national office official why FNS regulations relating to the DFSP have not been finalized. The official stated that this issue is like "beating a dead horse" and cited the history of trying to finalize the regulation dating back to the 1980s, including OIG's 1996 acceptance of publication of the DFSP handbook in lieu of regulations. We pointed out that the Food Stamp Act has specific requirements that must be included in State DFSP plans. These requirements are included and expanded upon in the handbook; however, since they are not required by regulation, FNS regions and State agencies are not ensuring that plans adhere to the requirements. We suggested that the regulations should be finalized to include at a minimum the requirements of the Food Stamp Act and a requirement for States to comply with the mandatory components of the DFSP handbook. The official did not think OMB would be amenable to this because of the increased burden on the States. In addition, the process to implement a regulation is very time consuming and could take years. We agreed that regulations can be a long process; however, without a regulation, the mandatory components of the handbook are not enforceable.

FNS needs to ensure that States are prepared to implement disaster provisions prior to the occurrence of major catastrophes. The FNS DFSP handbook provides comprehensive guidance to States to ensure their preparedness for these events. However, because regulations do not require that States comply with mandatory components of the handbook, and because key provisions of the Food Stamp Act have not been codified in regulations, State plans were lacking essential components to ensure food stamps are provided to eligible households in the event of a disaster while maintaining program integrity.

Recommendation 1

Finalize Federal food stamp regulations pertaining to disaster assistance. At a minimum, the regulations should include the DFSP requirements of the Food Stamp Act and a requirement for States to adhere to the mandatory requirements of the DFSP Handbook.

Agency Response.

FNS concurs with the recommendation. FNS will take action to finalize DFSP regulations. A revised version of the DFSP Handbook was issued in May 2007, now entitled the DFSP Guidance. Because of the notice and comment rulemaking processes, FNS stated that OIG should anticipate the regulations will not be finalized in the short term.

OIG Position.

We agree with the planned action; however, until the regulations pertaining to disaster assistance are finalized, FNS needs to provide an interim instruction to the regional offices and States that use of the new DFSP Guidance, issued in May 2007, is mandatory. To reach management decision, timeframes for implementing the interim instruction and a plan for finalizing the regulations that includes estimated dates needs to be provided to us.

Recommendation 2

Develop and implement procedures detailing how FNS regional offices will review State DFSP plans and determine their adequacy. These procedures should include timeframes for submission and approval, documentation of approvals to State agencies, and actions that will need to be taken if a State disaster plan is found to lack mandatory components.

Agency Response.

FNS concurs with the recommendation. FNS' written response stated that action has been taken to clarify to regional offices how they will review State DFSP plans and determine their adequacy. FNS stated that in-depth training has been provided to regional offices about their DFSP responsibilities, including DFSP plan review and approval. FNS stressed that regional offices must give DFSP plans the same level of careful review as other components of the State Plan of Operation and that the regional offices must provide State agencies with letters of approval. Should a plan contain deficiencies, the regional office must document those deficiencies and request correction of them in a letter of conditional approval.

OIG Position.

We agree with the actions outlined in the training that was presented to the regional offices; however, the information presented at the training needs to be formalized into agency procedures. The procedures should include timeframes for submission and approval, and actions that will need to be taken if a State disaster plan is found to lack mandatory components, such as were presented in the training mentioned in the written response. To achieve management decision, a plan for implementing the formalized procedures along with timeframes for implementation needs to be provided.

Recommendation 3

Require FNS regional offices to include a review of State DFSP plans in annual reviews of State agency operations.

Agency Response.

FNS concurs with the recommendation. FNS' written response stated that additional oversight of State readiness to implement the DFSP will improve operations. FNS stated that under the DFSP Guidance, DFSP plans will be reviewed each fiscal year.

OIG Position.

We are unable to accept management decision at this time. The guidance referred to in FNS' response is guidance for States to review DFSP plans; it does not include a requirement for FNS regions to review the State plans. To ensure that State plans include key components included in the DFSP guidance, FNS regional offices need to include a review of the plans in their reviews of State agency operations. To achieve management decision, a plan to implement procedures for FNS regional offices to review State DFSP plans needs to be provided along with an estimated date of the plan implementation.

Finding 2

FNS Needs to Ensure Controls are in Place at State Agencies to Prevent Duplicate Participation and Recipient Fraud

Louisiana, Mississippi, and Texas each had control weaknesses in their processing of applications for disaster food stamp benefits. The systems used to process applications did not track denied applications and/or account for all family members. By not tracking these applicants and household members, denied applicants could reapply at different locations using altered information, and family members could apply separately using their own names. Prior to the disaster, the State agencies had not tested their systems to ensure controls were in place to prevent duplicate participation and other sorts of fraud, waste, and abuse. Due to these control weaknesses, each of these three States experienced an increased risk of duplicate or fraudulent participation.

We could not quantify the potential levels of participant fraud or duplicate participation due to the absence of State processes in place to detect such improper payments. However, OIG special agents working Hurricane Katrina Fraud Task Force investigations continue to receive referrals throughout the country on individuals who have submitted false claims or provided false statements to obtain Federal benefits. OIG has conducted 18 investigations in Mississippi and Louisiana concerning cases in which FNS and other USDA

agencies have been swindled by individuals fraudulently obtaining Hurricane Katrina disaster benefits. From October 1, 2006, through February 6, 2007, 37 individuals have been indicted, 9 of whom have pled guilty and received sentences ranging from 24 months of probation to 12 months of incarceration. All of those sentenced were ordered to pay restitution, ranging from \$2,000 to \$13,400.

As part of their DFSP, States are required to have a fraud prevention plan, which includes strategies to ensure program integrity from the start of the response to the disaster. Although fraud prevention measures were included in the approved applications to operate DFSPs in Louisiana and Mississippi, none of the three States reviewed had included a fraud prevention plan in their State disaster plans, and none of the States had tested their disaster systems used to process applications to ensure controls were in place to minimize participant fraud prior to the disasters. FNS guidelines do not require testing of disaster systems. Details of controls weaknesses for each State follow.

Louisiana Did Not Track Denied Applications

When Louisiana State agency officials processed DFSP applications, they did not keep track of denied applications. When Katrina struck, caseworkers were working in extremely difficult circumstances to provide benefits to applicants, and they attempted to save time by not entering denied applications into the system or tracking them by some alternative method. Two parish managers stated that applicants who had been refused for whatever reason could go to another office, alter their information, and reapply. No controls were in place to prevent this sort of abuse.

Mississippi Did Not Track Denied Applications and Could Not Check for Household Member Duplicate Participation

Like Louisiana, Mississippi caseworkers did not enter denied applications into their system or otherwise track denied applications. Mississippi caseworkers explained that the denied applications were left bundled separately from the approved applications and then counted for reporting purposes—they were never entered into the system or tracked. This meant that denied applicants could change locations, reapply with different information, and receive benefits.

In addition, Mississippi caseworkers did not check household members for duplicate participation when it issued benefits under its DFSP. Mississippi uses two systems to process applications for its regular food stamp program. EPPIC⁹ is the payment system that

⁹ Electronic Payment Processing Information Control

records only the primary applicant's information, and MAVERICS¹⁰ determines the applicant's eligibility and records the identifying information of all household members receiving benefits under that primary applicant's name. Ordinarily, these two systems work together to prevent duplicate participation.

As part of Mississippi's DFSP plan, State employees were instructed to enter only the applicant information into EPPIC, which means that other household members' information is not recorded. Therefore, other household members could apply and receive benefits without the system noting duplicate participation. When we spoke to State officials about this problem, they agreed that other household members could receive benefits under their own names, and that the system could not detect this kind of duplicate participation. EPPIC is simply not designed to capture this information, which makes it inadequate to serve as Mississippi's only system for processing disaster food stamp applications.

In 2004, when it was first implemented, Mississippi did perform a test of EPPIC. This test, however, did not test how EPPIC could work alone and still prevent duplicate issuance.

Texas Did Not Check for Duplicate Household Member Participation While Using TexKat

When Texas began to receive an influx of evacuees from Louisiana and other Gulf States, the Texas State agency quickly developed and implemented TexKat, an abbreviated application form meant to accelerate processing times. TexKat only required that the head of household's vital information (e.g., name, social security number, date of birth, etc.) be entered into the system—the vital information of other household members was not entered. Thus, as in Mississippi, other household members could apply for benefits and their vital information would not be recorded as duplicate participation. Households could potentially receive benefits for each member. Texas caseworkers noticed this problem with TexKat and, within days of the system's implementation, began using the regular food stamp application and overrode functions that did not apply for disaster benefits. The possibility for fraud was thus quickly mitigated due to these caseworkers' alertness and experience.

An FNS National Office official advised us that the issues regarding States not tracking denied applications and household members not being entered into the disaster application systems were serious issues that could result in duplicate participation or recipient fraud. Denied applications should be recorded and tracked in some way and all household members should be

¹⁰ Mississippi Application Verification Eligibility Recording Information Control System

entered into the system to prevent the household members from reapplying under their own names. The FNS official was not opposed to requiring States to annually test their disaster systems used to process applications to ensure controls are in place to prevent fraud.

Recommendation 4

Require States to test their disaster systems used to process applications annually, and document the results. These tests must include checks to ensure denied applications can be tracked and all household members are entered into the system during disaster situations.

Agency Response.

FNS concurs with the recommendation. In its response, FNS stated that in order to prevent duplicate participation, certification systems must be able to collect required personal information on all household members and should also track denied applications. However, once a DFSP certification system has been built and shown to have the capacity to collect necessary information, there should be no need to test it annually, unless that system is redesigned. FNS stated that it appears that all Southeast Region States and Louisiana and Texas now have added, or are moving towards adding, the capability of collecting household member information and denial tracking to their DFSP data systems.

OIG Position.

We are unable to accept management decision at this time. To achieve management decision, FNS needs to provide specifics as to States' actions, and timeframes for modifying DFSP certification systems to collect and track household member information and denied applications. We agree that a certification system may not need annual testing, but a policy for periodic testing (as suggested in FNS' *EBT Disaster Plan Guide*) including documentation of the results needs to be provided along with estimated dates for implementing the policy.

Scope and Methodology

OIG conducted an audit of FNS' efforts to provide nutrition assistance in the aftermath of Hurricanes Katrina and Rita. More specifically, we reviewed how FNS administered its DFSPs in Louisiana, Mississippi, and Texas. Our fieldwork was performed from January of 2006 to January of 2007.

To determine if FNS national and regional offices had adequate oversight of DFSP operations, OIG interviewed officials at the national office, as well as officials at the Southwest and Southeast regional offices. We also reviewed manuals, guidelines, policies, procedures, and regional disaster plans relevant to the administration of the DFSP.

To determine if the State agencies operated their DFSPs in accordance with waivers approved by the FNS Administrator, OIG interviewed State, county, and parish officials. OIG also reviewed FNS-approved waivers, as well as State-issued bulletins, procedures, policies, and EBT contracts. We also reviewed current State disaster plans, procedures, bulletins, and handbooks in order to evaluate the effectiveness of controls to prevent program abuse, such as the prevention of duplicate payments. We did not attempt to quantify the level of duplicate participation or participant fraud as part of our audit due to the lack of State processes to detect such improper payments.

To determine who was responsible for replacing point-of-sale terminals lost or damaged by Hurricanes Katrina and Rita, OIG obtained and reviewed the EBT contracts and Louisiana's, Mississippi's, and Texas' DFSP plans. OIG also interviewed the contract coordinator and communicated with the Louisiana, Mississippi, and Texas State EBT coordinators and contractors. OIG evaluated procedures established for the repair and maintenance of EBT-only point-of-sale terminals.

Overall, in the 2005 hurricane season, Louisiana's DFSP served 779,213 households and issued \$400,993,709 in benefits. OIG selected 3 of 66 parish offices for review because they were affected by both Hurricanes Katrina and Rita. In these 3 parish offices, we interviewed 35 caseworkers to determine the DFSP application process.

Mississippi's DFSP served 410,930 households and issued \$134,983,005 in benefits. Of the 23 counties that were declared disaster areas in Mississippi, OIG selected 4 counties because they issued the highest total disaster benefits for each of the 4 operational phases. OIG also selected two of four processing centers for review; these two centers were selected because the State had maintained adequate documentation of which employees were assigned to work at the different centers. We interviewed (by questionnaire and fax) a total of 52 employees to learn how victims of the hurricanes applied for and received DFSP benefits in Mississippi.

Together, Texas' DFSP and Expanded Disaster Evacuee Policy served 136,189 households and issued \$99,656,966 in benefits. Of 315 county offices, OIG selected 3 for review based on recommendations from the State office because they were directly affected by Hurricanes Katrina and Rita. In these 3 offices, we interviewed 33 caseworkers to learn how Texas processed disaster food stamp applications.

The following table illustrates which county and parish offices we contacted and/or visited in these three States:

State	County/Parish
Louisiana	Terrebonne Parish Office East Baton Rouge Parish Office Lafayette Parish Office
Mississippi	Pearl River County Application Center Forrest County Application Center Harrison County Application Center Jones County Application Center Lincoln County Processing Center Forrest County Processing Center
Texas	Harris County, Houston Scott St. Office Harris County, Houston Telephone Rd. Office Jefferson County, Beaumont Office

This audit was conducted in accordance with generally accepted Government auditing standards. Accordingly, the audit included such tests of program records as considered necessary to meet the audit objectives.

Exhibit A – State Disaster Food Stamp Program Plan Deficiencies

Exhibit A – Page 1 of 1

State Agency DFSP Plan Requirements	Component Included in State Plan? (Y/N)		
	Louisiana	Texas	Mississippi
Identification of local, State, and Federal Government agencies with responsibilities for disaster assistance and a description of these responsibilities, including local project areas.	N	Y	N
Names, positions, and phone numbers of local, State and Federal Government officials who are key contact persons during a disaster, including the State agency disaster coordinator.	N	Y	Y
Identification of private disaster relief agencies within the State such as the Red Cross, Salvation Army, and advocate and community groups.	N	Y	N
Procedures for informing the public about the disaster program.	Y	N	N
Application procedures to reduce hardship and inconvenience.	Y	N	N
A fraud prevention plan.	N	N	N
A plan for training caseworkers in the operation of the DFSP.	Y	N	N
An issuance plan.	Y	Y	Y
Procedures for conducting post-disaster review activity.	N	Y	N

Exhibit B – Agency Response

Exhibit B – Page 1 of 2



AUG 16 2007

United States
Department of
Agriculture

Food and
Nutrition
Service

3101 Park
Center Drive

Alexandria, VA
22302-1600

SUBJECT: OIG Audit 27099-49-Te: Disaster Food Stamp Program (DFSP) for Hurricanes Katrina and Rita – Louisiana, Mississippi, and Texas

TO: Robert W. Young
Assistant Inspector General for Audit
Office of the Inspector General

This memorandum is in response to the subject audit's findings and recommendations in the discussion draft presented to the Food and Nutrition Service (FNS) on June 27, 2007. We generally concur with the recommendations and offer the following response:

Recommendation 1 – Finalize Federal food stamp regulations pertaining to disaster assistance. At a minimum, the regulations should include the Disaster Food Stamp Program (DFSP) requirements of the Food Stamp Act and a requirement for States to adhere to the mandatory requirements of the DFSP Handbook.

We accept the recommendation and will take action to finalize DFSP regulations. Office of the Inspector General (OIG) should note that FNS issued a revised version of the DFSP Handbook in May 2007, which is now entitled the DFSP Guidance. As finalizing regulations will require us to initiate the notice and comment rulemaking processes, OIG should anticipate that regulations will not be finalized in the short term. We anticipate that finalized regulations will mirror the essential aspects of the DFSP Guidance: pre-disaster planning, public notification, program implementation, post-disaster reviews and reporting, and fraud prevention.

Recommendation 2 – Develop and implement procedures detailing how FNS regional offices will review State DFSP plans and determine their adequacy. These procedures should include timeframes for submission and approval, documentation of approvals to State agencies, and actions that will need to be taken if a State disaster plan is found to lack mandatory components.

We accept the recommendation and have already taken action to clarify to Regional Offices how they will review State DFSP plans and determine their adequacy. On June 8, 21, and 28, FNS provided in-depth training to Regional Offices about their DFSP responsibilities, including DFSP plan review and approval. FNS emphasized our expectation that States with changes to their DFSP plans must submit them to their Regional Offices by August 15 of each year, but that Regional Offices may negotiate an alternate due date with individual states that request one in advance. Additionally, FNS stressed that Regional Offices must give DFSP plans the same level of careful review as other components of the State Plan of Operation and that the Regional Offices must provide State agencies with letters of approval. Should a plan contain deficiencies, the Regional Office must document those deficiencies and request correction of them in a letter of conditional approval.

AN EQUAL OPPORTUNITY EMPLOYER

Robert W. Young
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FNS also stressed at the trainings that all Regional Offices are responsible for providing DFSP training to their State agencies. The Southeast and Southwest Regional Offices completed their training of Gulf Coast and southeast coastal states, including OIG-audited states Louisiana, Mississippi, and Texas, at an intensive training held in Biloxi, Mississippi from July 23 to July 25. The training included a working session that allowed State agencies to begin updating their plans of operation onsite.

Recommendation 3 – Require FNS regional offices to include a review of State DFSP plans in annual review of State agency operations.

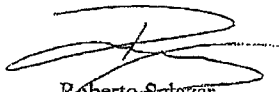
We agree that additional oversight of State readiness to implement the DFSP will improve operations; however, under the DFSP Guidance, DFSP Plans already will be reviewed each fiscal year.

Recommendation 4 – Require States to test their disaster EBT systems annually, and document the results. These tests must include checks to ensure denied applications can be tracked and all household members are entered into the system during disaster situations.

We understand from our meeting with OIG on June 27 that the intended interpretation of this recommendation was that States should test their client certification systems, not EBT systems, since client certification systems track application approvals and denials. We agree with the recommendation that in order to prevent duplicate participation, certification systems must be able to collect required personal information on all household members and should also track denied applications. However, once a DFSP certification system has been built and shown to have the capacity to collect necessary information, there should be no need to test it annually, unless that system is redesigned. We will offer to work with any State to test client certification systems that did not previously collect household member information and denied applications and then retest the system should it undergo subsequent redesign. In this connection, based on information we received from States attending the Biloxi, Mississippi training session, it appears that all Southeast Region States and Louisiana and Texas now have added or are moving towards adding the capability of collecting household member information and denial tracking to their DFSP data systems.

Please feel free to contact Melissa Daigle Katz, Program Analyst at 703-305-2062 or Art Foley, Director, Program Development Division at 703-305-2494 if you wish to discuss our response.

Sincerely,



Roberto Salazar
Administrator